NOTES

COST HISTORY AND COST THEORY[1]

Taken as a whole, this work of Mr. Whittaker strikes one as, in history, in criticism, and in exposition, the best treatment of the cost-value doctrine that has yet appeared. Thus, where there is so much to commend and so little to regret, the reviewer's task is much more easily and shortly performed in confining the discussion to points where dissent is to be expressed.

It may perhaps be safely assumed that in declaring as absolutely essential the principle that "the value of an object is not derived from the sacrifices made to obtain it; on the contrary, we make the sacrifice because the object has value" (p. 144)— Mr. Whittaker has, mostly or exclusively, subjective value in mind; at all events, he does not appear to question the cost principle as applied to exchange value, unless perhaps for its superficiality.

But, taken as a doctrine purely in the subjective-value field, is it true that value is fundamental to cost? It is to be admitted that the Austrians — whose use of the term is here definitive, since they are the inventors and sponsors of it — have, for most purposes, made marginal utility and subjective value interchangeable concepts. Subjective *Wert* in Austrian thought is to be understood as a non-relative thing — the felt dependence upon a good regarded as the necessary condition to an absolute magnitude of feeling.

But that the marginal utility of a good and the subjective value of it are commonly equivalent concepts leaves it none the less true that, where marginal utility and the burden of replacement do not coincide in importance for feeling — the burden being smaller than the service — the subjective value falls to the second level, the cost level. This is to make subjective value in some cases a question, not of utility but of dis-utility — not of service, but of cost. And, in fact, the concept or subjective value as the derivative or equivalent of marginal utility is itself, in last analysis, a cost concept; for what

[1] *History and Criticism of the Labor Theory of Value in English Political Economy*. By Albert C. Whittaker. (Columbia University Studies, Vol. XIX, No. 2.)

is the law of substitution, by which each item in a stock of similar goods takes on the importance of the marginal item, but a case of sacrifice? The case where the loss in terms of service can be replaced through the expenditure of a less significant sum of labor — the subjective worth therefore falling to the sacrifice level — is merely an extension and application of this cost law underlying the entire concept of subjective value; it is simply a case where the marginal utility takes on subjective value according to the measure of the cost attaching to it.

And so, when it is said by Mr. Whittaker that "the only means of estimating how much sacrifice or comfort we can afford to undergo to obtain an object, is by judging its value to us *previously to* and *independently of* the sacrifice" (p. 144), the statement would better read, "by judging its marginal utility to us," etc. It is true that "if the labor cost determined the value, we could expend labor cost regardlessly in producing any object whatsoever" (p. 144); but it may still be true that the labor cost of replacement furnishes the upper limit to value. "We must have a care when we expend labor: a care for what? For the value of the result" (p. 144). But if this is a subjective-value reckoning, rather than a market-value-entrepreneur reckoning, we must have a care only for the marginal utility of the result. True, "the value of the object is derived from the satisfaction it can afford," but it may be limited by the satisfaction that it displaces or by the dissatisfaction that its obtaining imposes. At least, so it seems to this writer.

And to this writer it also seems true that the exposition of Ricardo's system of thought would have been made even better than it is — and this is to ask much — had the influence of labor cost, as a leveller and proportioner of values, been interpreted as an illustration of the "opportunity-cost" computation worked out in entrepreneur competition.

Perhaps a further criticism may be formulated more dogmatically, to the extent, at least, that one is justified in being sure of anything: subject to this limitation, one feels like making the flat denial that "Ricardo never stated a law of entrepreneur cost plainly, formally, as such, though he gives it an obscure recognition as a source of difficulty to the pure labor theory of value" (p. 15). On the contrary, Ricardo recognized entrepreneur cost, and recognized wages as a part of it; he expressly denied that it is the value of the labor which determines the value of the product; instead, he asserted that

it is the relative quantity of labor required which determines the relative amount of entrepreneur outlays in wages; that is to say, he recognized entrepreneur cost, but at the same time he recognized that it is not an ultimate explanation of value. He was trying to discover the ultimate determinant; these cost outlays could not so serve, but were simply so many more items of fact, definitive for entrepreneur purposes doubtless, but nevertheless, in any view of the situation as a whole, themselves awaiting each its own explanation.

Equally sharp must be the dissent from Mr. Whittaker's assertion that

> as a theory of value . . . . Adam Smith left us an early form of the law of entrepreneurs' cost, and a labor-demand measure of value; but he disowns what is naturally thought of as the genuine classical theory of value, that labor cost regulates market value. This theory was Ricardo's, and really his alone (p. 35).

While, as we have seen, Ricardo recognized both labor cost and entrepreneur cost, and was doing his utmost to articulate them and to show how the second had its ultimate explanation in the first, and was therefore perfectly aware that he was discussing two different things, Adam Smith here, as with most other economic categories, had not only these two notions, but several more as well, all together in general mish-mash. So, while it is true that, consistently with his intense practicality, the most of his discussion shades off into the entrepreneur formulation, it is equally true that, at times, he held a distinctly labor-cost doctrine for the regulation of exchange value. It is thus, for example, that in Book I, chap. 6, he emphasizes the fact that, if it usually costs twice the labor to kill a beaver that it costs to kill a deer, one beaver will naturally exchange for — will be worth — two deer. Labor, as was evident enough to Smith, has a value; but the problem was — and still is — precisely here: is this labor value ultimate and self-sufficing, or is it merely an intermediate term in some longer chain of causal sequence? So far as Smith formulated any answer to this question, it was to ascribe to labor a non-derivative homogeneity in terms of pain, and — unless under a long-time subsistence-cost determination — a non-derivative value, and to make this value serve, with or without entrepreneur intervention, as the explanation, in terms of causation, of exchange relations.

So far also as Mr. Whittaker's discussion involves the exposition or the criticism of the Austrian theory, there appears to this writer

to be occasion for further disagreement; but these are perhaps mostly incidental matters, apart from the main and central interest of the work — the history and criticism of classical cost theory.

That this explanation and criticism are admirable in their clarity, their sympathetic and yet searching analysis, their temper and their accuracy, should perhaps once more be said, in view of the ungracious seeming of a discussion sounding almost entirely in terms of dissent; but if the attempt were made to cover the material of agreement, any adequate account of the book would become impracticable. It is certainly true that no one who cares to go to the bottom of the value controversy can afford to overlook this work.

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THE INDUSTRIAL CAPACITY OF THE GERMAN

The industrial progress of Germany during the last quarter of a century, particularly during the past ten years, has attracted universal attention. The English, especially, have been made acutely aware of the situation by the competition of this new commercial power, not only in foreign markets which they had long regarded complacently as their own, but even in the domestic market in branches where their supremacy had never before been assailed. The causes of this phenomenon are numerous, but perhaps the most interesting and important one is the character of the German people themselves. In this brief space, however, it will be possible to touch upon merely the most obvious and general characteristics of the German in his adaptation to modern capitalistic industry.

Capitalistic production requires the existence of two economic classes: (1) A class composed of persons having knowledge of the technique of production and of business management, with organizing and executive ability, together with the control of capital. Of course, these manifold abilities are rarely combined in one individual, but they are the necessary requisites of the class. (2) A class composed of persons dependent upon their labor for a livelihood, who for wages are willing to place their services at the disposal of the entrepreneur and become parts of the industrial organization. All the population of even the most capitalistic nations do not fall into one or the other of these classes, notwithstanding the statement of Karl Marx to the contrary, but in studying the industrial capacity of people we must confine our observation to those qualities which distinguish them as entrepreneurs or as wage laborers.